

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6602

BILL NUMBER: HB 1003

NOTE PREPARED: Jan 13, 2004

BILL AMENDED:

SUBJECT: Farmstead Property Tax Deduction.

FIRST AUTHOR: Rep. Chowning

BILL STATUS: CR Adopted - 1st House

FIRST SPONSOR:

FUNDS AFFECTED: ☒ GENERAL
☒ DEDICATED
☐ FEDERAL

IMPACT: State & Local

STATE IMPACT	FY 2004	FY 2005	FY 2006
State Revenues		(15,000)	(30,000)
State Expenditures		130,000	390,000
Net Increase (Decrease)		(145,000)	(420,000)

Summary of Legislation: This bill establishes a farmstead property tax deduction.

Effective Date: Upon passage.

Explanation of State Expenditures: (Revised) This bill would increase the state's combined expenditures for Property Tax Replacement Credit (PTRC) and Homestead Credits by an estimated **\$130,000 in FY 2005 and \$390,000 each year thereafter**. These amounts are composed of the following.

The farm deduction in this proposal would cause a part of farmers' tax burdens to be shifted to homeowners beginning in CY 2005. The increase in homesteaders' property tax bills would result in an increased state expense for Homestead Credits. The increase is estimated at about \$280,000 in FY 2005 and \$840,000 per year thereafter.

The new farm deduction would cause part of farmers' tax burdens to be shifted to business personal property beginning in CY 2005. The state pays the 60% school general fund PTRC on all property, however, business

personal property does not qualify for the regular 20% PTRC. The state's expense for the 20% regular PTRC would be reduced by an estimated \$150,000 in FY 2005 and \$450,000 per year in following years.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF), which is annually supplemented by the state General Fund. Any change in expenditures for these credits would ultimately affect the state General Fund.

The Department of Local Government Finance (DLGF) would be permitted to adopt temporary rules to implement this proposed deduction.

Explanation of State Revenues: (Revised) The AV reduction resulting from the farmstead property tax deduction would cause a reduction in revenue for the State Fair and State Forestry Funds. The reduction is estimated at about \$15,000 in FY 2005 and \$30,000 in all other years.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) This bill would allow a deduction from the assessed value of agricultural land owned by an individual or a corporation if the owner actively participates in the use of the agricultural land. Each owner would be eligible to receive only one deduction statewide, regardless of the number of farms owned. The deduction would be equal to the lesser of (1) 20% of the farmland's assessed value or (2) the statutory deduction amount for the standard homestead deduction which is currently set at \$35,000.

The bill is effective beginning with property tax paid in CY 2004. However, with the passing of the January 9, 2004, filing deadline in the bill for 2004 deductions, the bill would actually take effect with taxes paid in 2005.

Based on a maximum \$35,000 deduction and the number and size of farms reported in the *1997 Census of Farms*, the reduction in AV is estimated at \$1.22 B AV for taxes paid in 2005 and future years. Reductions of the AV tax base cause a shift of the property tax burden from the taxpayers receiving the reductions to all taxpayers in the form of an increased tax rate. **These deductions would cause an estimated statewide net tax shift of about \$24.3 M in CY 2005 and \$23.7 M in CY 2006.** Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the AV reduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: County auditors; All local units and school corporations.

Information Sources: Census Bureau; Local Government Database.

Fiscal Analyst: Bob Sigalow, 317-232-9859.